Are Perpetual Futures a Promising Trading Method?

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Abstract

Perpetual futures have attracted attention since the U.S. Commodity Futures Trading Commission (CFTC) approved, for the first time, their listing on a regulated market. A perpetual future has no expiry date, but in substance it is a deferred-settlement derivative, like FX margin trading and stock margin transaction. Deferred-settlement trades require the parties to exchange a financing charge, known in perpetual futures as the "funding rate." In theory, that charge equals the interest rate minus the lending fee for the asset. In crypto-asset perpetual futures traded in the United States to date, the funding rate has fluctuated widely, making trading speculative. The newly listed Bitcoin perpetual future will be an important test. Can it support sound price discovery with a stable funding rate? The answer will help show whether perpetual futures can be used for other financial assets, such as individual stocks and stock indexes. Perpetual futures are not in themselves a new or especially competitive trading method. But they are offered using new technologies such as blockchain, and current regulation of these new forms of trading is relatively loose. How these factors shape the future of perpetual futures also deserves attention.

Introduction

In late May 2026, the CFTC approved the listing of Bitcoin perpetual futures on a regulated market, a commodity futures exchange. Crypto-asset exchanges had already offered perpetual futures, but this was the first time they were listed on a regulated market. The CFTC also issued a policy paper that discussed whether perpetual futures could be used for individual stocks and stock indexes. This raised concerns in the stock market about the business of existing exchanges. Shares in the three largest U.S. exchange groups—CME, ICE, and Cboe—fell sharply, by 7 to 15 percent.

How promising is this way to trade? This article explains how perpetual futures differ from, and resemble, other derivatives. It also offers my view of their potential and usefulness.

What Are Perpetual Futures? —Derivatives with Deferred Settlement

News reports often describe perpetual futures as "derivatives with no expiry date" whose prices can move away from spot prices, so buyers and sellers regularly exchange adjustment payments. This description can be hard to follow. Put simply, perpetual futures are similar to FX margin trading and stock margin transaction.

Derivatives, apart from options and swaps, can be divided into two broad types: "futures-type" trades, which involve buying or selling at a future date, and "deferred-settlement" trades, which delay settlement of a spot trade. Stock index futures, government bond futures, and commodity futures are examples of the first type. FX margin trading, stock margin transaction, and contracts for difference (CFDs) are examples of the second. A futures-type trade creates a position by agreeing to buy or sell at a later date. In a deferred-settlement trade, the parties buy or sell the asset in a spot transaction, but delivery of the asset or payment of the money is postponed. During that period, the trader borrows the asset or the money. The loan is repaid when the position is closed, either by making an offsetting trade or by delivering or taking delivery of the asset.

Financing Charges in Deferred-Settlement Trades

A key feature of deferred-settlement trades is that costs or income arise each day while settlement is postponed. To sell or buy on margin, a trader borrows the asset or the money and provides the sale proceeds or the purchased asset as collateral. The collateral may then be re-lent or otherwise used. In economic terms, the seller borrows the asset and lends money, while the buyer borrows money and lends the asset. As a result, the parties need to exchange fees for borrowing the money and the asset while settlement is deferred.

The interest rate on money is clear. The lending fee for an asset, however, is often less transparent. In Japanese stock margin transaction, the stock-lending rate is usually hidden. The short seller's interest income on the collateral generally offsets the stock-lending fee, leaving a net amount of zero.[1] The buyer is charged interest in full, while the stock-lending fee on the collateral shares is treated as zero. If shares become scarce, a high stock-lending premium known as *gyaku-hibu* may suddenly apply. The result is an abrupt change in the cost of the trade.

FX margin trading is an ideal form of deferred-settlement trading in this respect. The lending costs for the money used in the trade, usually yen, and for the asset, such as dollars or euros, are clear because they are interest rates. The difference between the two interest rates is exchanged as swap points. Apart from a modest spread, there is no built-in asymmetry or abrupt change in the charge.

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[1] In Japanese stock margin transaction, short sellers in principle used to pay no financing charge. However, as part of the tightening of short-selling rules in 2002, a flat stock-lending fee of about 1% (0.4% charged by Japan Securities Finance to securities companies) was introduced, regardless of market lending rates.

How Perpetual Futures Work in the United States

In the United States, perpetual futures first developed mainly as a way to trade crypto-assets. They were offered through decentralized exchanges (DEXs) based outside the United States. How U.S. derivatives rules applied to these products was unclear, leaving them in a kind of regulatory gray area.

How do these markets handle the financing charge? In U.S. perpetual futures, it is called the "funding rate." As with other deferred-settlement trades, in theory it reflects the interest rate minus the lending fee for the crypto-asset. Traders watch whether the funding rate is positive, meaning buyers pay sellers, or negative, meaning sellers pay buyers. They often treat it as a measure of investor sentiment. A negative rate is taken to mean that short selling has increased and the cost of borrowing the asset has risen, suggesting a bearish market. Such indicators, of course, do not reliably predict market movements. Japan has two contradictory market sayings for a similar situation: "Don't buy when there is *gyaku-hibu*" and "Don't sell when there is *gyaku-hibu*."

How Promising Are Perpetual Futures?

More than 100 crypto-assets are traded through perpetual futures in the United States. For some of them, funding rates fluctuate sharply, and trading or arbitraging those rates becomes a reason to trade the contracts. This resembles margin transaction in small-cap stocks, where *gyaku-hibu* tends to arise.

The lending markets for these assets are generally thin. Lending fees are therefore volatile, making trading unstable or speculative. In perpetual futures on SpaceX (more precisely, on tokens linked to it) right after its listing, for example, a shortage of the underlying asset pushed the funding rate sharply negative. Many short sellers were forced to cut their losses. If the ideal deferred-settlement market is one with a deep lending market and clear, stable lending costs—as in FX margin trading, where the charge is an interest rate—then current U.S. perpetual futures are far from that ideal. They can be described as products for enthusiasts. In this respect, they continue the kind of trading offered by crypto-asset exchanges.

U.S. perpetual futures have distinctive speculative features and trading opportunities, which have helped drive market growth. But to pose a serious challenge to established exchanges, they must allow traders to take positions on the value of major assets without being exposed to unstable funding rates. The newly approved Bitcoin perpetual future will therefore be an important test of whether trading can expand to individual stocks and stock indexes.

Conclusion—Nothing New Under the Sun, Yet…

As discussed above, perpetual futures are not a new way to trade, and in themselves they do not have a strong competitive advantage over other derivatives. Still, two factors deserve attention when assessing their real-world competitiveness.

The first is the environment in which they are offered. Perpetual futures make extensive use of technologies such as the internet, blockchain, and tokenization. In many cases, both the asset and the money used in the trade are tokenized, and settlement takes place on a blockchain. Their simple platforms and direct access make it possible to use short periods for marking positions to market and exchanging funding payments—often every eight hours. This can help lower trading costs and support high leverage, often around 100 times the amount invested. Many DEXs on which perpetual futures are traded focus on matching orders. Other exchange functions are provided through smart contracts or outsourced services. This unbundling of exchange activities is a notable innovation.

The second factor is the weaknesses or inefficiencies of existing markets, and differences in regulation. Even if perpetual futures are not fundamentally new, they could challenge existing products if those products are inefficient or costly. For example, leverage in U.S. stock margin transaction is limited to about two times, and the system is costly because charges are generally collected from both buyers and sellers. Also, at least for now, U.S. regulation is more accommodating toward trading that uses blockchain and token technology than toward traditional securities trading.

History offers a useful comparison: short-term clearing transactions (*tanki seisan torihiki*) in Japan before World War II. Futures trading in individual stocks was then common. Later, short-term clearing transactions, a form of deferred-settlement trading, overtook long-term clearing transactions, which were futures-type trades. They were more efficient and faced lighter regulation and tax treatment. I do not necessarily think perpetual futures will replace the main forms of derivatives trading. But the factors discussed above make their future development worth watching.

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Appendix: Why Deferred-Settlement Derivatives Require Financing Charges

Deferred-settlement derivatives, such as FX margin trading, stock margin transaction, and contracts for difference (CFDs), are traded at spot prices. At first glance, it may seem that when the spot price rises, the buyer simply earns the difference and the seller loses the same

amount. Why, then, must the parties also exchange financing charges each day?
Let us use FX margin trading as an example. FX margin trading can be viewed as a spot transaction whose settlement is postponed. It can also be viewed as a series of one-day futures trades that are rolled over each day. Japan's Financial Services Agency uses the second definition. Suppose a buyer and a seller of dollars open positions when the exchange rate is 160 yen to the dollar, and the next day it rises to 161 yen. If they settled only the change in the spot price, the buyer would gain one yen and the seller would lose one yen. But that alone would not work as a trading arrangement.
The reason is that the seller may also buy and hold dollars in the cash market at the same time. Even over just one day, the seller would earn interest on the dollars held (strictly speaking, the return reflects the interest-rate difference between yen and dollars). In that case, although the seller loses one yen on the FX margin trade, the seller gains one yen on the cash holding. After offsetting the two, the seller earns the dollar interest. The same relationship holds if the exchange rate falls to 159 yen the next day: the seller still earns the dollar interest. In other words, if the parties exchanged only the change in the spot price, combining the derivative with a cash trade would create a risk-free arbitrage profit, regardless of how the exchange rate moved.
For this reason, even trades such as CFDs—which are often described as involving only the exchange of changes in spot prices—include financing charges, called "funding costs" in CFDs, even though no borrowing or lending appears to take place. In all of these trades, exchanging financing charges is essential to maintain parity with those markets. In futures-type trades, the difference between spot and futures prices already reflects the financing cost or income.
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